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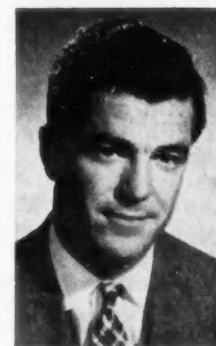
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Life Among the Giants In the Insurance Industry

By Lloyd M. Bentsen, Jr.,* *Lincoln Liberty Life Insurance Co.,
Lincoln, Nebraska*

The viability of smaller life insurance companies, their net return's growth, and ability to compete successfully against insurance giants are some of the topics treated by Mr. Bentsen. Before explaining the advantages inherent in smaller life insurance companies compared to their larger competitors, the insurance head stresses the importance in timing and of patience in buying life stocks, and offers a guide on what to look for among the hundreds of new companies spawned in the last decade which offer better investment prospects.

The American philosophy has always been that any boy has the opportunity to grow up to be President—that humble beginnings are no barrier to his success. And in our economy, the natural corollary has been that the small company can become a big company . . . an ex-mechanic can organize the third largest automobile company . . . an ice-cream stand can grow into the Howard Johnson chain. In some businesses, it seems that the opportunities are greater for smaller companies than they are for large.

The word "small" as descriptive of a life company is a relative term with many interpretations; but for the purpose of this discussion, it will arbitrarily denote those of less than one-half billion.

In 1916, the five largest companies in the business were writing 44% of all the new ordinary business being written. In 1959, the five largest insurance companies were writing only 39% of the ordinary production. That is a drop of 11%, and it is 11% of a much larger total business than was being written 40 years ago.

Another recent survey shows some interesting facts about the average increase in insurance in force of large and small life insurance companies. Those companies—writing ordinary life only, and with between \$100 million insurance in force by 148%; while those with a billion dollars worth of insurance in force 10 years ago showed an increase of 105%. The smaller companies' percentage of growth was 43% more than that of the billion-dollar companies!

It's proof that, in the life insurance industry, a monopoly of giants is a receding mirage. The anti-trust division of the attorney general's department should have no cause for concern, for there is plenty of growth left for the small company which is properly managed and financed.

From the stock investor's viewpoint, life insurance stocks have been often an imponderable. Many an investor has purchased stock in a new insurance company and then gone for years without a dividend while his stock stood still or dropped in market value. Often they have understandably called it quits after a few such years. Too often they have left the stadium just as the ball game was about to begin. If ever there was a stock in which the timing of purchase is important, it's life stock.

A new life insurance company invests a great deal of money, which can't be capitalized, in promoting agencies to write new business. This new business begins to produce dividends only after a number of years. So, the best time to buy is just after a company has arrived. There are many criteria for this arrival—a net gain from operations, a hundred million in force, aggressive management, and at least a 10% growth factor. Yet, it should not be so big that further high percentage growth requires enormous total dollar gains. Top management's ability, influence, and enthusiasm—however, it excels—has a tendency to be dissipated the farther it must be spread over a company.

We are all familiar with the

fabulous capital gains in stocks such as National Life and Accident, where \$1,000 of stock in 1905 is worth over two million today; or Southwestern Life's \$250,000 capital and surplus in 1909, today amounts to well over \$50 million. But little is said of the years these stocks were static. Once again, timing is probably more important in the purchase of life stocks than any other.

Smaller Company Problems

This rate of rapid growth for the smaller companies has not been without problems. They have had to overcome some formidable disadvantages resulting from lack of size. Just to name a few—lack of name recognition . . . shortage of volume for automation . . . no management depth . . . and cost ratios. Each of these disadvantages can at least be moderated . . . some overcome . . . and a few of these lemons even turned into lemonade!

First, this problem of name recognition. We can become discouraged by surveys like one showing these answers to this question:

Size	42%
What you have read or heard about the company	37
Agent who represents company	14
Location	3
No opinion	4

Accepted at face value, these figures are enough to make a small-company President cut his throat! Fortunately, this obstacle isn't as formidable as it first appears, for a prospect seldom asks to buy life insurance. It's still sold—the salesman is the small company's salvation.

Cites His Company's Experience

We can compete favorably with the name giants in our industry if we are selective in the area of competition and choose those areas most advantageous for our particular operations. For example, I told our agency director that some place in the United States we wanted to be the biggest insurance company in the world. Since a large number of our stockholders are in the lower Rio Grande Valley of Texas, there we had a sphere of influence; and we chose it as a place to concentrate and saturate.

Our advertising budget for that limited area far exceeds that of any of the large life companies. To be able to advertise our product in that area, we had to have the availability of it in quantity—and that meant a concentration of agents. We built name recognition quickly in this small area and did so at a reasonable cost. Now we have more M. D. R. T. members in that area than any of the large companies. Today we are close to being the biggest insurance company in the world—in the Rio Grande Valley of Texas!

Automation for the small company is still a problem.

The manufacturers of electronic data computers, understandably,

first concentrated their efforts on machines to serve the largest accounts. Fortunately now they have come to realize an even larger market awaits them in smaller companies. The automation of lower volume companies is well on the way to solution. We are even led to hope that the mass production of the smaller computers will lead to a cost basis for these machines that will give us comparable cost ratios with the largest computers.

In a company of our size, depth of management becomes a luxury we can't afford; therefore, more rides or falls on the actions of each official. His actions are not as moderated for better or worse by a chain of command between him and the men in the field. The perils of this situation are obvious, but it's not without some definite advantages.

Earlier, I stated that there is still plenty of room for growth for the small company if it is properly managed and financed. Both ingredients are absolutely necessary with today's intense competition and rising costs in the insurance field.

The science of business management has made great strides in recent years. It is necessary that the management of the small company impose on itself continuous education to stay abreast. The empirical approach still used by some will raise their percentage of management errors to a noncompetitive level.

Although larger companies are more prone to use management consultant firms, it's the small company that should be emphasizing their use. No small company can afford to staff itself to the extent that it can be conducting as comprehensive and detailed studies as are available through such consultant firms. Nor can you observe your own problems with comparable objectivity.

Comparing New Companies

In the last decade, hundreds of new companies were spawned. There were some vast differences in their character, finance and objectives.

(1) Those whose sponsors were interested only in a fast buck through stock promotion were a travesty on the investing public and the reputation of the industry. They have been, or will be, absorbed by others.

(2) Others, sincere in their purpose but under-capitalized, have found that the break-even point of any new company showing appreciable growth continues to climb far beyond the old textbook criteria.

Without refinancing—and this on today's market is an unlikely prospect—the sooner these under-financed small companies get the urge to merge, the better will their labors be rewarded. But for the company well-financed and managed, the rewards are there for the doing.

These smaller companies have historically earned a higher net return on their investments in the past. This has been a most helpful subsidy to their growth.

Some of the advantages afforded a small life company are almost unique to our industry. When one of our giant competitors finishes its actuarial studies and market research for a new policy, then introduces it to the public, we can follow them with an identical product in a matter of days, if we are impressed with it. For us, there is no expensive retooling of a production line or a long delay while a competitor captures the public's fancy with a new product. If we are satisfied with the policy's economic potential, we call the printer and submit it to the state for formal approval. There is no policy they can offer that the smaller company can't duplicate. The empha-

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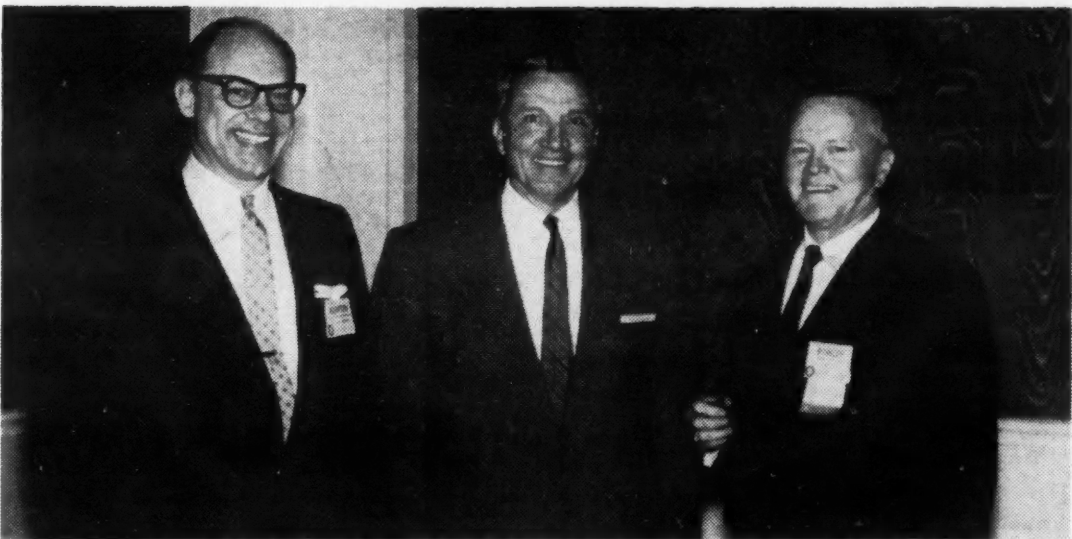
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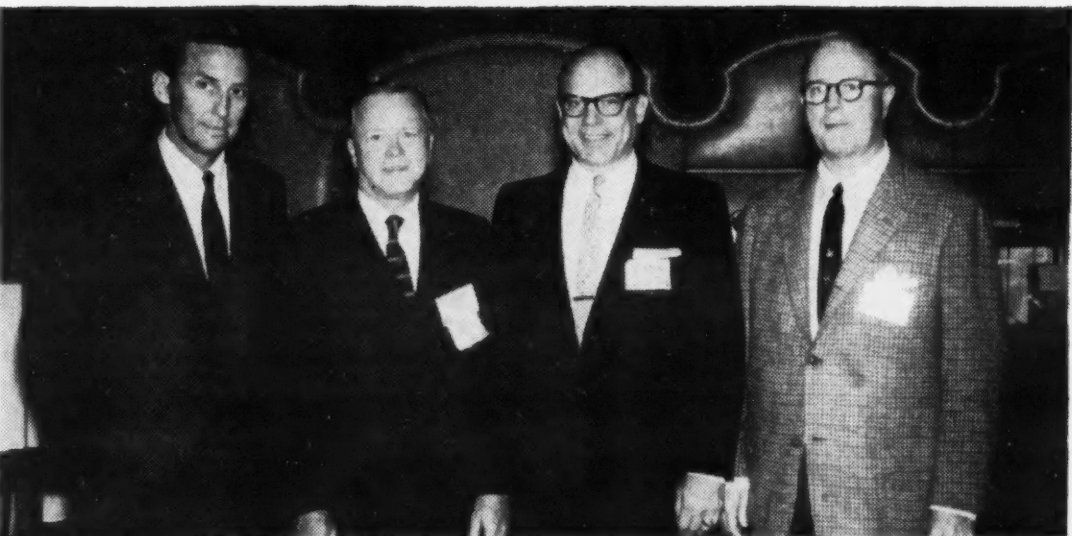
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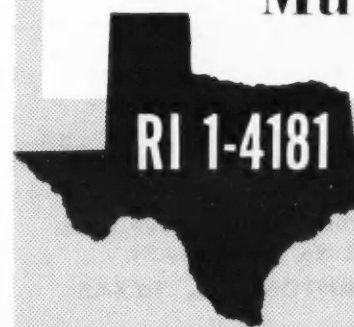
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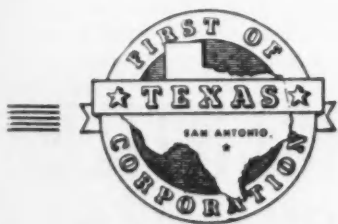
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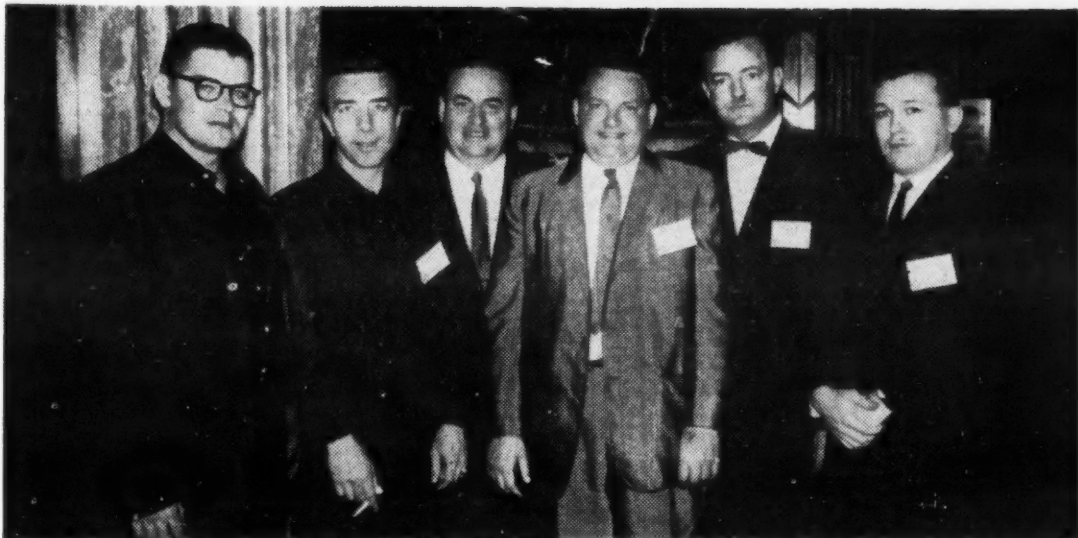
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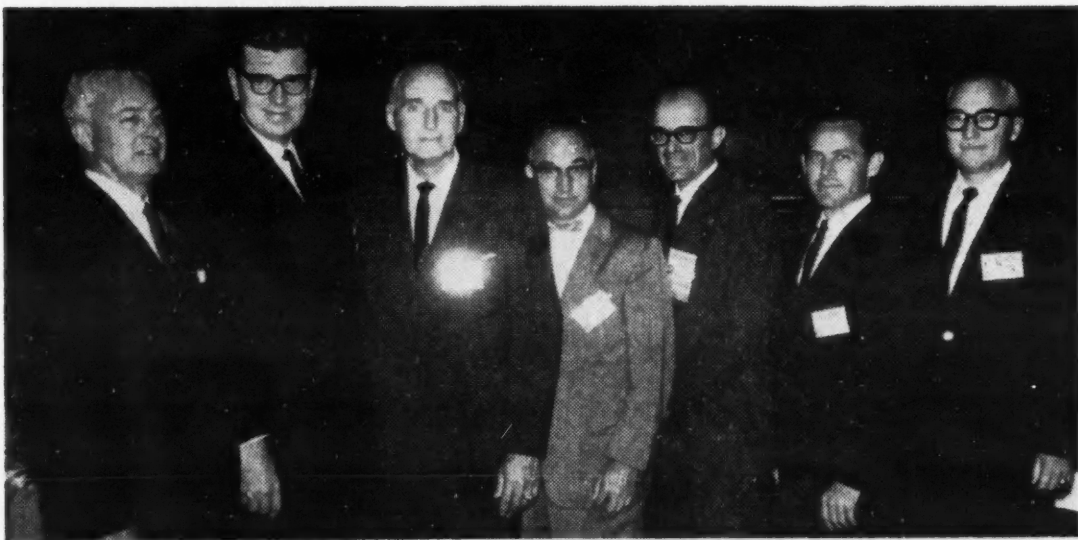
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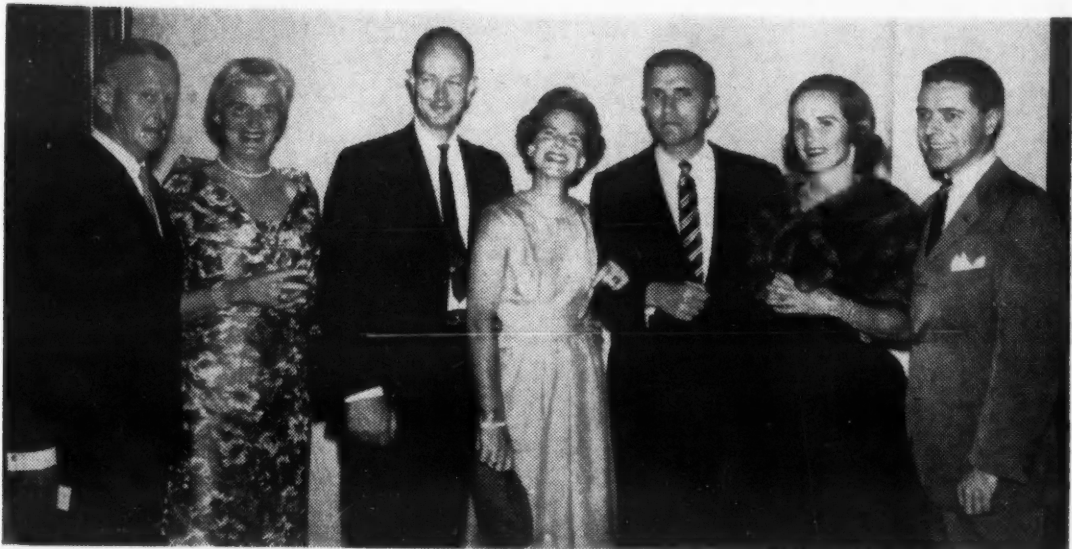
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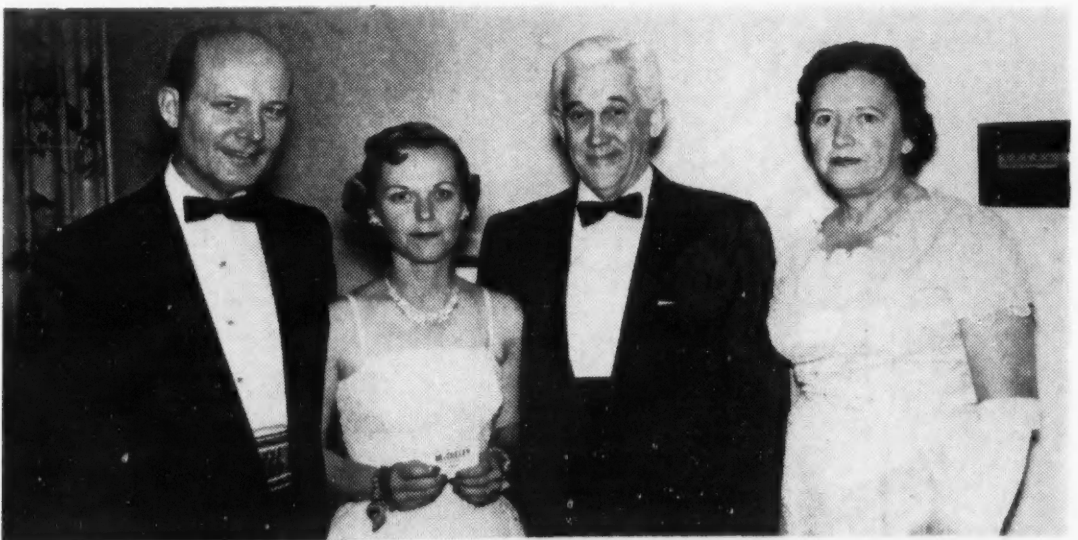
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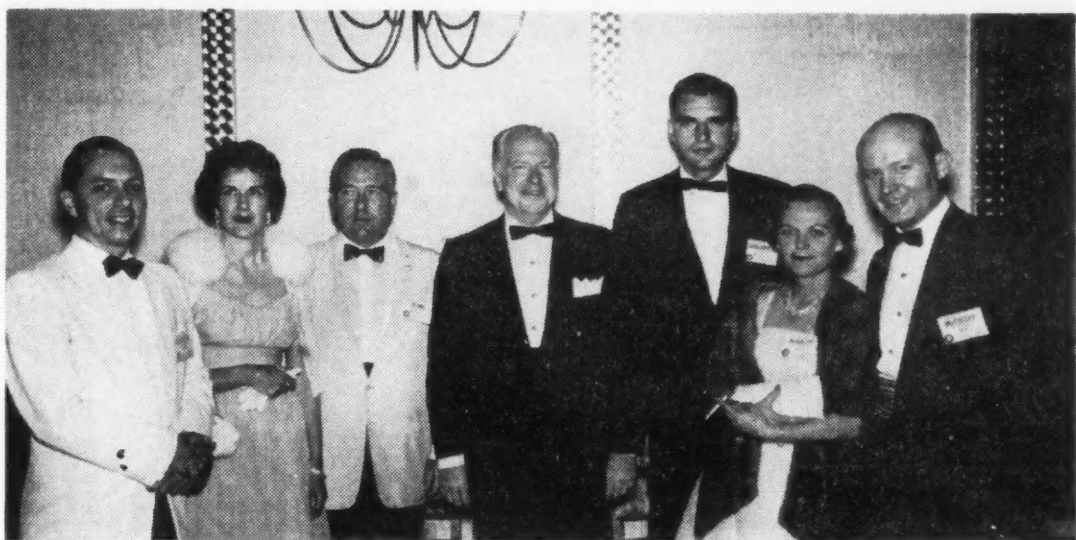
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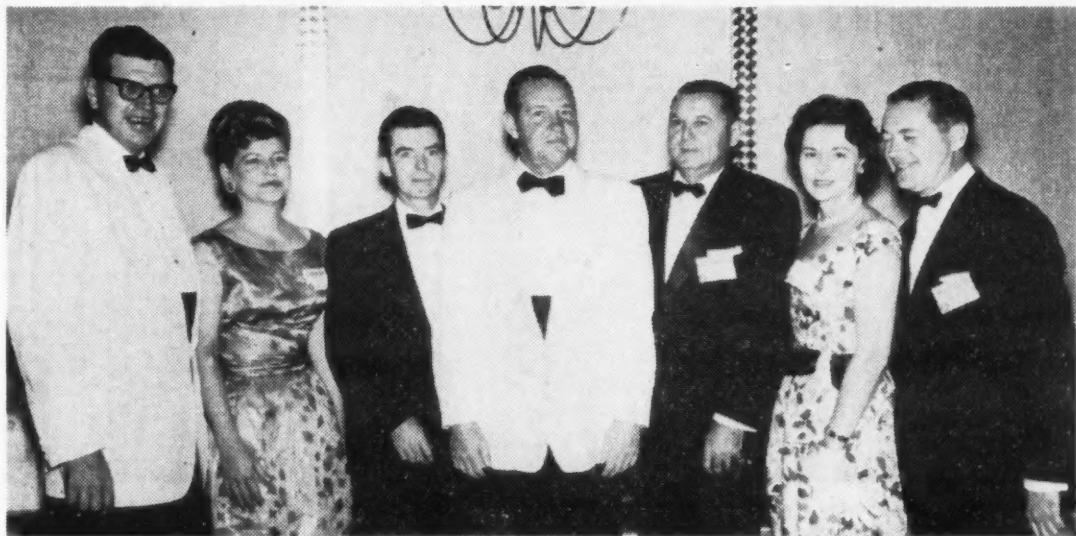
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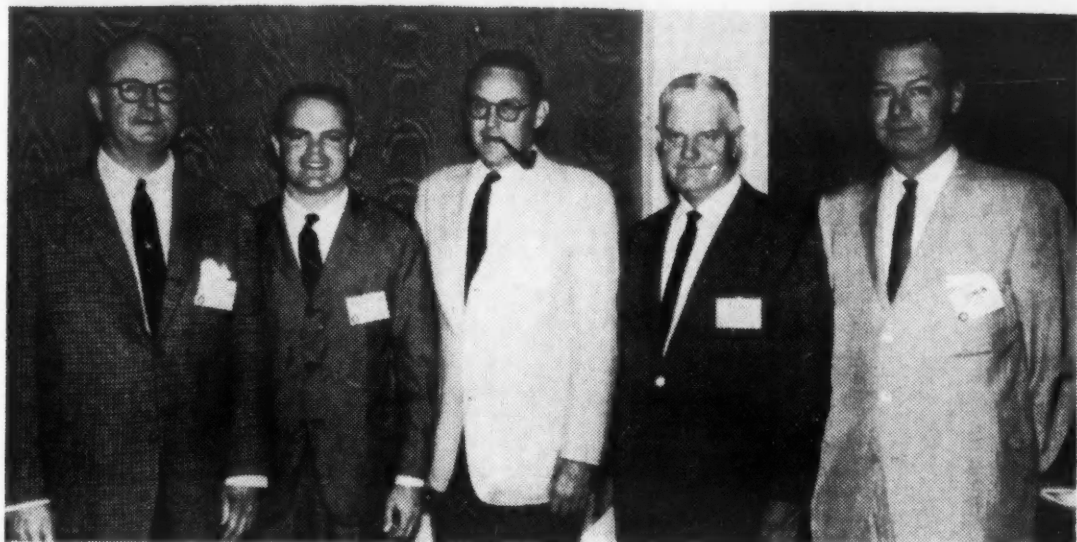
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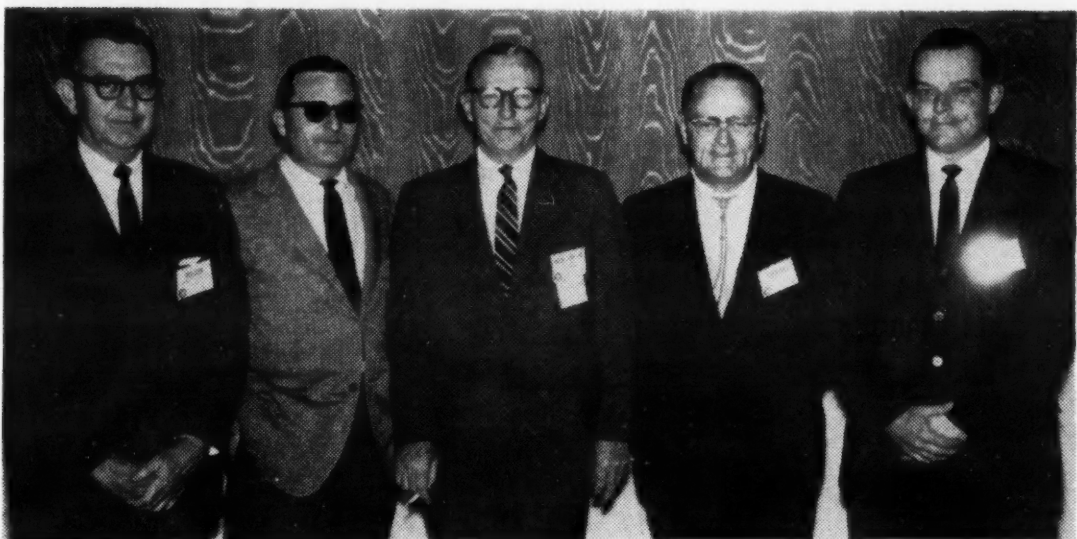
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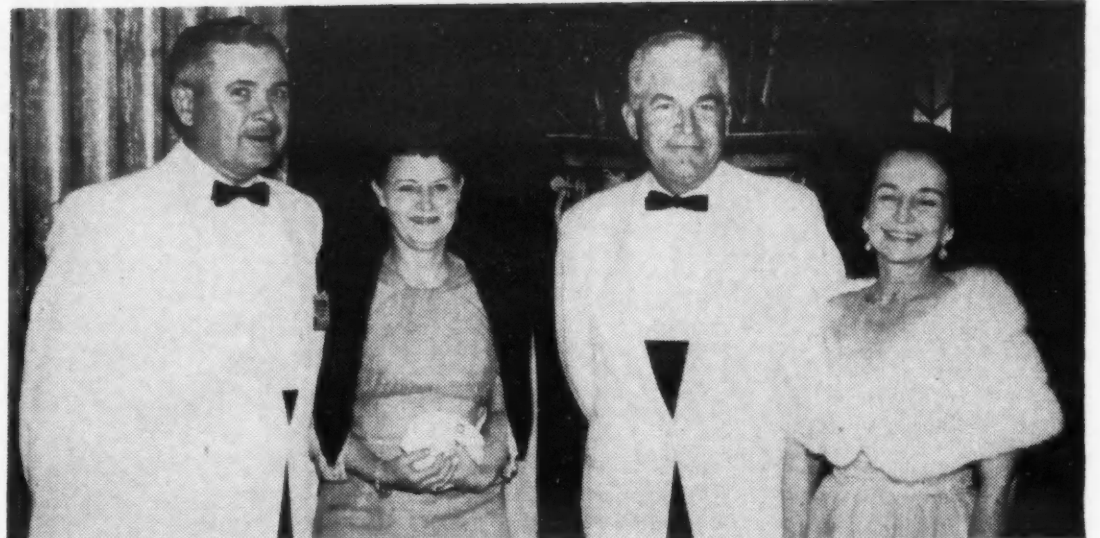
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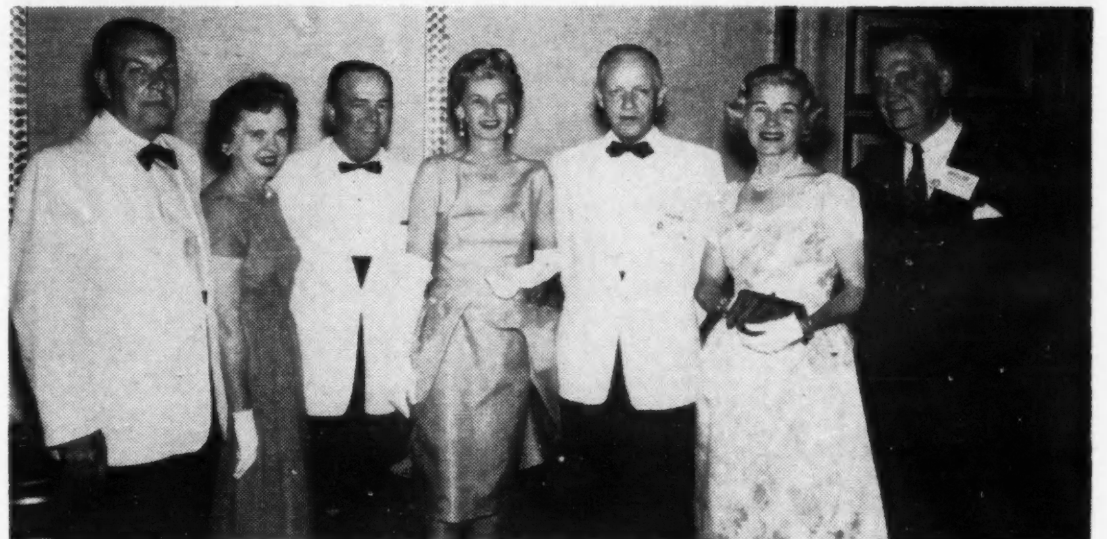
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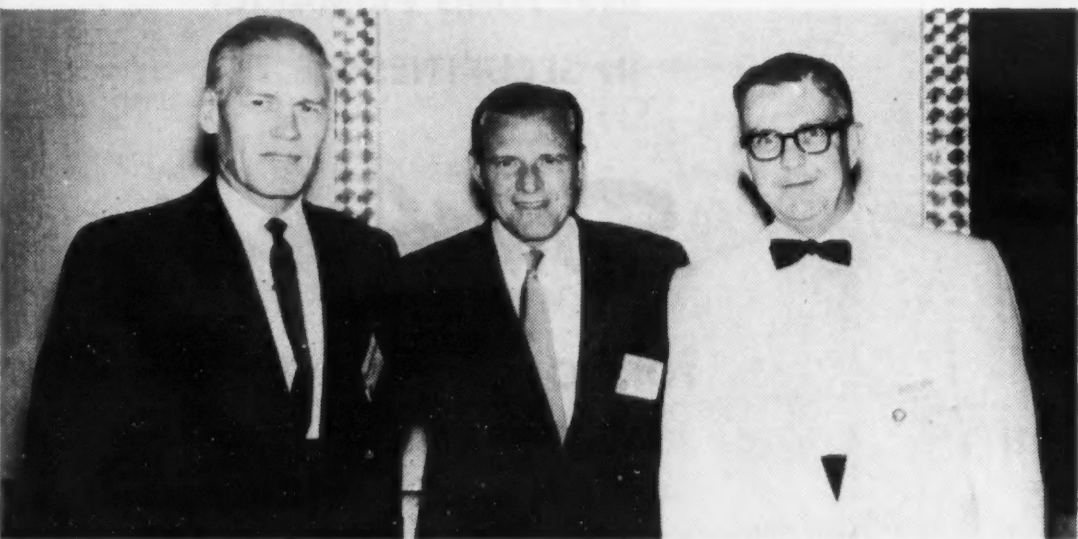
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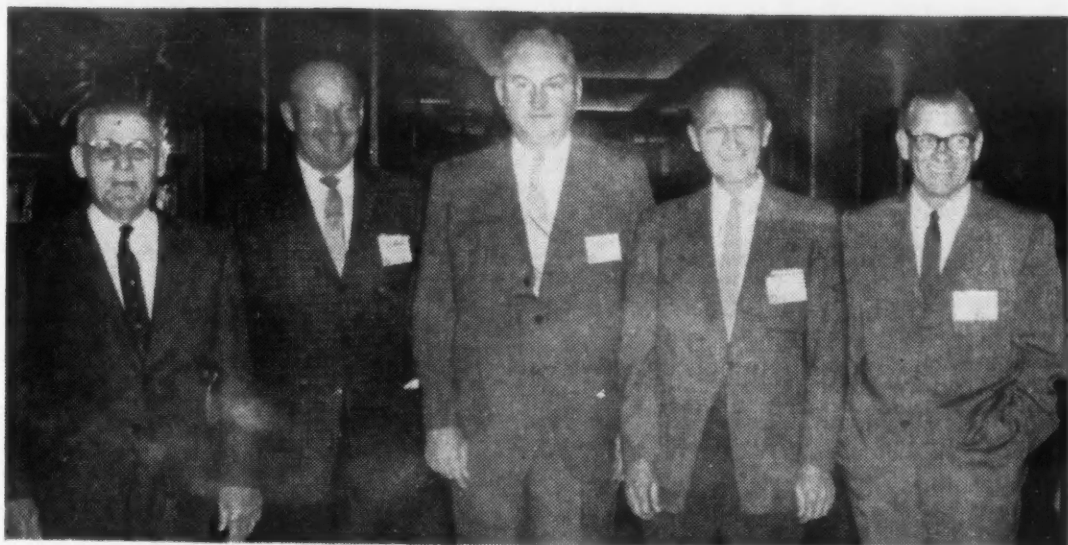
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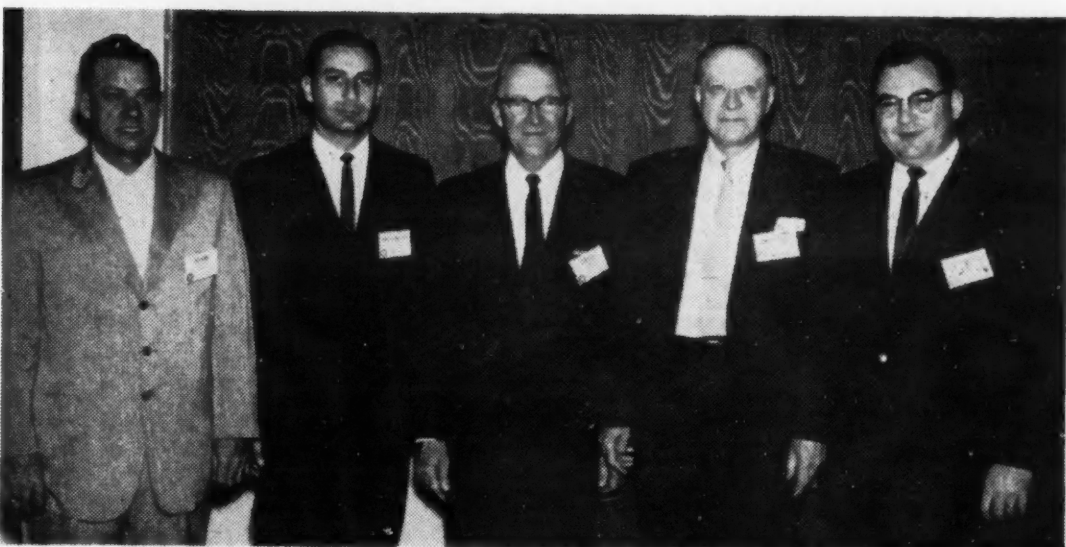
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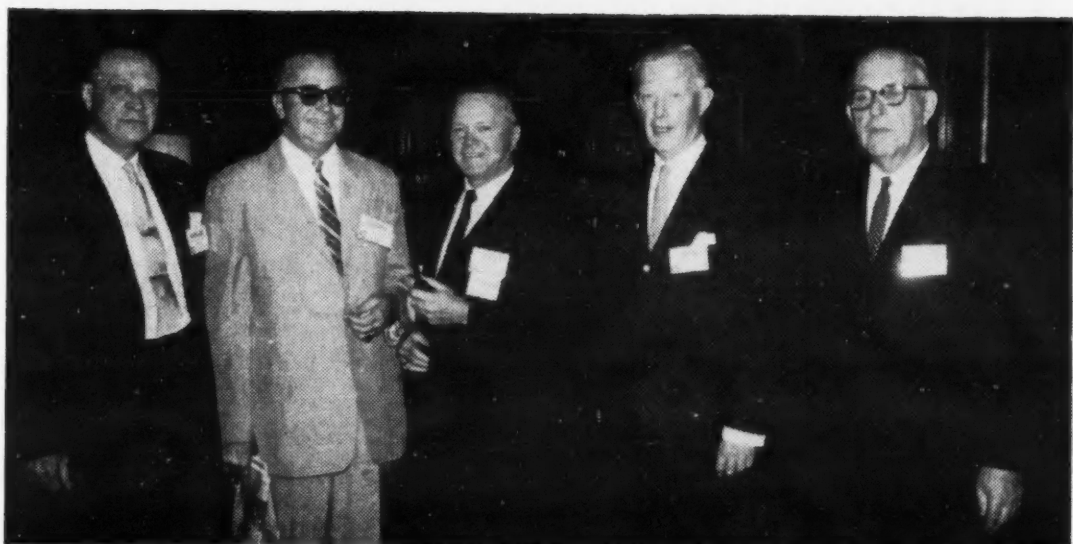
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Life Among the Giants In the Insurance Industry

Continued from page 2

sis of the competition is not in products, but in salesmanship.

New Tax Law Aids Smaller Firm

Congress went out of its way to encourage the growth of small life insurance companies in the new Federal tax law. The new law establishes a growth incentive for the small life company. For such a company, today's law is more favorable than the previous one. Nineteen Fifty-eight Federal tax law on life insurance companies was, in the main, aimed at underwriting profits. Treasury chose as an objective an arbitrary goal of \$500 million to be paid by the life insurance industry. Taxes on life insurance companies have historically given consideration to the long-term liability a company contracts with a policyholder, and provided a safety margin. Yet, there were some credit life and hospitalization companies which built few reserves or had short-term liability contracts, which were making large profits and paying little in taxes. It was at these companies the Treasury and Congress particularly aimed the increased taxes. The overall tax paid by the industry was increased; but for other than these specialty companies, the percentage increase for the individual companies was small.

Insurance tax law is so complex and the studies and hearings before Congress so long and involved in this comprehensive tax revision, that I think it politically improbable that there will be any major revisions in the insurance tax law for several years.

Management has a number of advantages in the smaller company. The smaller company, for example, can far more easily tailor its overall operations to meet the peculiar needs and requirements of certain occupational or cultural groups.

For instance, a smaller company can specialize in selling life insurance to teachers, abstainers from alcohol and tobacco, a religious group, farmers, or college students; and design practically all of its advertising, sales tools, and presentations in terms that are most meaningful to that particular group. In short, the company can stamp itself as a college, educators, farmers, or union life.

The larger companies, of course, can modify their operation somewhat when working in each of these fields; but, of necessity, the large company must base its operations on its national needs, and any specialization must be simply modifications.

Some of today's largest insurance companies had their initial growth in such specialized fields, and they went on into more diversified operations as they grew beyond the limits of these fields.

Greater Flexibility

The smaller company's management can be far more flexible, and life insurance is a business that requires management flexibility to a great degree. The more intimate relationship of the smaller organization reveals the need for change more quickly, and the necessary change can be made more easily and at less expense because there are fewer people and departments involved in the change. Top management is directly concerned with operations throughout the organization.

Successful small company management is truly a team performance. All of its officers have knowledge of all of its operations. Departments are still people concerned with each other's problems because they still share in their solution and the rewards.

In our company, the agency director and the president are on a first-name basis with our field force. Our agency director—like all agency directors—is dealing in general with a group of extroverts . . . men of moods . . . and, if particularly successful as salesmen, they are likely to be prima donnas. Motivation for them becomes an obligation of the agency director. He must be able to transmit confidence, ambition, and drive. The larger the company, the more this becomes a merchandising motivation through managers, literature, and secondary media. But motivation is an appeal to emotions and, therefore, difficult to sustain. Obviously it is easier to maintain in a company where the agency director and president are on an intimate, first-name basis with the men in the field.

Our growth—like that of every insurance company—must come from the efficient sales efforts of the men who are in the field selling our insurance. So it is fundamental that, to assure our continued growth, we must continue to recruit top caliber men to represent us in the field. Here, again, our size is an advantage. For when a top recruiting prospect turns up, it is by no means a sure thing that he will join us. He may not yet be completely sold on entering the insurance field. He may be wooed by a half-dozen other companies. But we have found that it is easier to sell him on entering the insurance business—and on entering it as our representative—when our agency director and our president can talk to him personally.

In such a situation I may not have any more sales charm than the president of a competing billion-dollar firm. But I have the advantage that the girls overseas had during the war—I've got it there! And that makes a difference to the recruit, just as it did to the boys overseas. To keep this personal selling practical, the geographical objectives for new agency development is to concentrate and saturate. The objective is to enlarge present agencies and to create new agencies in proximity to the Home Office and the Texas-Louisiana Gulf Coast.

With today's intense competition, cost factors have become increasingly important. Transportation costs for agency schools and administrative costs are all less per unit agent where we have concentrated and saturated.

The Question of Size

In a company of our size, we are not interested in experiments in new methods of management. Our agency director must not be the first to prove the advantages of a new method of management, but he should be as close as possible to being the second. We are neither large enough nor wealthy enough to start down our own particular cul-de-sac . . . someone has already done it for us and can help us avoid that pitfall by his experiences.

Most of the management advantages of smaller companies that I have been discussing have been related to sales—and this is natural, because sales are the very essence of the life insurance business. But it is obvious to almost any management man that a great many of these advantages exist to a certain degree in every facet of the life insurance company.

In the area of employee relations, for instance, it is almost axiomatic that it is easier to maintain good employee spirit in the smaller company; where day-

to-day working relations are between individuals who are personally known to each other. Huge rooms full of office workers are likely to bring rooms full of problems. Office politics becomes a more complicated problem. The reasons for management policies are likely to get lost in the shuffle, with the result that employees feel that management policies are just somebody's whims.

As everyone concerned with management knows, it is easy for the inefficient worker to "become lost" in the large organization because his inefficiency doesn't show up at once. In the field of labor relations and unions, there could never have been "big labor" until there was first "big business."

One of the most pronounced trends in growth of American business in recent years has been that of growth through mergers. There has been a phenomenal number of mergers of companies of all kinds. Some of these were to obtain tax advantages . . . some to diversify . . . some to obtain new products . . . some to obtain new management . . . some to obtain operating efficiencies.

Here, again, the smaller company usually has some growth advantages over the larger company, since a merger is usually easier to arrange when the two companies involved are not large and unwieldy. Regulatory bodies are generally more favorably inclined toward mergers when the companies involved do not present any threat of monopoly.

Our present organization is the result of a merger between a relatively new company with an aggressive young management and an older, established company with an outstanding reputation in the geographical area in which it does business. The results have been a gratifying growth since the merger and ambitious plans for the future.

Now I feel that I've made it pretty clear that I think there are tremendous opportunities at the present time for insurance companies in general and small companies in particular. I readily admit the competition of big companies is rough and will probably become more so; but I have a sneaking suspicion they, too, are feeling the impact of the most competitive era in the industry's history.

My remarks have been limited to factors affecting small companies as opposed to larger companies and have not dwelt on the economic factors which will assure growth to insurance companies of all sizes.

We plan to expand our operations. In short, we are getting bigger and have plans to get much bigger.

And there's the paradox.

I have been holding forth on the advantages of being small, but I'm admitting that we are rushing toward bigness.

As we grow, our objective will be to accrue the many advantages of the large companies while doing our utmost not to lose the advantages which contributed to our new classification. Most of all, we will strive not to lose the personal touch with the salesman and the policyholder.

The subject of the future of small companies is certainly not a new one; and in collecting background material for this talk, it was noted that none of the speakers was ever asked to speak again on the subject. I hasten to add it wasn't because their talks weren't of interest; but, shortly thereafter, the classification of "small company" just didn't fit. This dire fate we hope to be ours.

*An address by Mr. Bentsen before the Texas Group, Investment Bankers Association of America, Houston, Texas, April 13, 1961.

In Attendance at Texas IBA Group Meeting

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KING, WILLIAM M.
State Securities Board,
Austin, Texas.

KIRKHAM, CHAS.
Merrill Lynch, Pierce, Fenner & Smith,
Inc., Dallas, Texas.

KNICKERBOCKER, W. E.
McClung & Knickerbocker, Inc.,
Houston, Texas.

KNOWLES, WALTER E., III*
The First Boston Corporation,
Chicago, Ill.

KOCUREK, ARNOLD J.*
Rauscher, Pierce & Co., Inc.,
San Antonio, Texas.

KRASOWICH, JOSEPH S.
Gregory & Sons,
New York, N. Y.

LAIN, JAMES W.*
Rotan, Mosle & Co.,
Houston, Texas.

LAU, WILLIAM J.
J. M. Dain & Co., Inc.,
Minneapolis, Minn.

LAUGHLIN, E. BUDD
Downs (Harry) & Co.,
New York, N. Y.

LEDYARD, Q. R.
Equitable Securities Corporation,
Nashville, Tenn.

LENTZ, LESLIE L.
Lentz, Newton & Co.,
San Antonio, Texas.

LEONARD, JAMES G.*
Lehman Brothers,
New York, N. Y.

LIPSCOMB, CHARLES S.*
W. H. Morton & Co., Inc.,
New York, N. Y.

LUBETKIN, ALVIN N.
J. R. Williston & Beane,
New York, N. Y.

LUBY, JOSEPH M.*
Paine, Webber, Jackson & Curtis,
New York, N. Y.

LUCAS, BILL*
The Fort Worth National Bank,
Fort Worth, Texas.

LUNEY, PRESTON T.*
Harris Trust & Savings Bank,
Chicago, Ill.

LYNCH, DAVID D.
Kidder, Peabody & Co.,
New York, N. Y.

LYNE, LEWIS F.
Mercantile National Bank,
Dallas, Texas.

MCBRIDE, JACK*
Rotan, Mosle & Co.,
Houston, Texas.

MCALL, HOBBS H.*
McCall, Parkhurst, Crowe, McCall &
Horton, Dallas, Texas.

McCULLEY, C. RADER*
First Southwest Company,
Dallas, Texas.

McCULLOCH, BARRON
Barron McCulloch & Co.,
Fort Worth, Texas.

McGOVERN, MILTON J.
Television Shares Management Corp.,
Chicago, Ill.

McMANUS, PHILIP F.*
New York Hanseatic Corporation,
New York, N. Y.

McPHERSON, W. FERRY*
Merrill Lynch, Pierce, Fenner & Smith,
Inc.

MACKENZIE, JOHN*
North American Securities Company,
San Francisco

MARLIN, WILLIAM M.
Bache & Co.,
New York City.

MARTIN, JAKE T.*
Mercantile National Bank,
Dallas, Texas.

MASTERSON, TOM*
Underwood, Neuhaus & Co.,
Houston, Texas.

MAWDSLEY, LORRIN C.
Van Aalst, Noel & Co.,
New York City.

MAYFIELD, HARRY F.
Commerce Trust Company,
Kansas City.

MAYS, HOWARD
Office of the Attorney General of Texas,
Austin.

MILLER, SANFORD
A. C. Allyn & Company,
Chicago, Ill.

MORELAND, J. MARVIN, JR.
McClung & Knickerbocker, Inc.,
Houston, Texas.

MORONEY, ROBERT E.*
Moroney, Beissner & Co., Inc.,
Houston, Texas.

MORRIS, JACK
R. A. Underwood & Co., Inc.,
Dallas, Texas.

MUIR, EDWARD D.*
Dempsey-Tegeler & Co.,
San Antonio, Texas.

MURPHY, BOB*
First National Bank in Dallas,
Dallas, Texas.

MURPHY, JAMES D.
Shearson, Hammill & Co.,
Houston, Texas.

MURPHY, JAMES H.
Dempsey-Tegeler & Co.,
Chicago, Ill.

NAZRO, ARTHUR P.
The Parker Corporation,
Dallas, Texas.

NEFF, RICHARD W., JR.
Underwood, Neuhaus & Company,
Houston, Texas.

NEUBAUS, PHILIP R.*
Underwood, Neuhaus & Co.,
Houston, Texas.

NEWTON, FRANK R. JR.*
Lentz, Newton & Co.,
San Antonio, Texas.

NEWTON, GEORGE A.
G. H. Walker & Co.,
St. Louis, Mo.

NONGARD, R. C.
Nongard, Showers & Murray, Inc.,
Chicago, Ill.

OPPENHEIM, EDGAR R.
Leo Oppenheim and Company,
Oklahoma City, Okla.

OSORIO, JOHN
Osorio, Swiener & Palmer,
Austin, Texas.

OSTRANDER, WILLIAM L.
The First Boston Corporation,
Chicago, Ill.

OWEN, GENE*
Rauscher, Pierce & Co., Inc.,
Houston, Texas.

PALMER, E. EUGENE
Osorio, Swiener & Palmer,
Austin, Texas.

PARKS, WILLIAM M.*
Charles J. Eubank Company,
Waco, Texas.

PAULS, LOUIS
Louis Pauls and Company,
Galveston, Texas.

PAYNE, JACK C.*
Dallas Union Securities Company,
Dallas, Texas.

PAYNE, W. W.
First of Texas Corporation,
San Antonio, Texas.

PECK, ANDREW
Clark, Dodge & Co., Inc.,
New York City.

FEDRICK, PARKS, JR.*
Howard Weil, Labouisse, Friedrichs &
Co., New Orleans.

PETROCCHI, T.
Barron McCulloch & Company,
Fort Worth, Texas.

PHILLIPS, JESS R., JR.*
A. G. Edwards & Sons,
Houston, Texas.

PIERCE, CHARLES C.*
Rauscher, Pierce & Co., Inc.,
Dallas, Texas.

PIERCE, CHARLES C., JR.
Rauscher, Pierce & Co., Inc.,
Dallas, Texas.

PISTELL, RICHARD C.
Pistell, Crow, Inc.,
New York City.

POLLOK, L. W.*
Eddleman, Pollok & Fosdick,
Houston, Texas.

PORTER, WILLIAM C.*
Dittmar & Co., Inc.,
San Antonio, Texas.

PRATT, MARSON B.
Estabrook & Co.,
Boston, Mass.

RADDING, WILLIAM J., JR.
National Association of Securities
Dealers, Inc., Dallas.

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Rotan, Mosle & Co.,
Houston, Texas.

RATLIFF, HARRY*
A. G. Edwards & Sons,
Houston, Texas.

RAUSCHER, JOHN H., JR.*
Rauscher, Pierce & Co., Inc.,
Dallas, Texas.

RAY, THOMAS L.
Mercantile Trust Company,
St. Louis, Mo.

REGARD, GERALD L.
Pistell, Crow, Inc.,
New York, N. Y.

REILLY, F. VINCENT
Commercial & Financial Chronicle,
New York, N. Y.

REILLY, JAMES F.
Goodbody & Co.,
New York, N. Y.

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Chicago

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Bell & Hough, Inc.,
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Dominick & Dominick,
New York, N. Y.

ROOKER, GEORGE S.*
Metropolitan Dallas Company,
Dallas, Texas

ROWLES, RUSSELL R.*
Rowles, Winston & Co.,
Houston, Texas

RUBIN, JAY LEWIS*
Baché & Co.,
San Antonio, Texas

SAMPLE, CLARENCE E.*
Mercantile National Bank at Dallas,
Dallas, Texas

SCHULTZ, GLENN R.
Continental Illinois National Bank &
Trust Co., of Chicago

SEEBECK, ROBERT F.
Smith, Barney & Co.,
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SENHOLZI, JOHN C.*
The Chase Manhattan Bank,
New York, N. Y.

SHELTON, LOCKETT
Republic National Bank of Dallas,
Dallas, Texas

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Eddleman, Pollok & Fosdick,
Houston, Texas

SIMPSON, H. L.*
Underwood, Neuhaus & Co.,
Houston, Texas

SORENSEN, WALTER M.*
Rotan, Mosle & Co.,
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SPARKS, GEORGE W.
Vinson, Elkins, Weems & Searls,
Houston, Texas

STAPP, W. E.*
Vinson, Elkins, Weems & Searls,
Houston, Texas

STEPHENS, J. F.*
Texas Fund Management Company,
Houston, Texas

STEVENSON, ALEC B.
Vance, Sanders & Co., Inc.,
Nashville, Tenn.

STEVENSON, STUART D.
Bankers Trust Company,
New York, N. Y.

STEWART, ROBERT, JR.*
Bank of the Southwest,
Houston, Texas

STOLLE, CARL
G. A. Saxton & Co., Inc.,
New York, N. Y.

STORIE, W. STEWART*
First Southwest Company,
Dallas, Texas

STOTLER, ROGER G.*
Rowles, Winston & Co.,
Houston, Texas

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Bankers Trust Company,
New York, N. Y.

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Blyth & Co., Inc.,
Chicago, Ill.

THOMAS, HAROLD L.
Pioneer Fund Inc.,
Dallas, Texas

THORS, JAY E.
Asiel & Co.,
New York City

TINSLEY, W. E.
Municipal Advisory Council of Texas,
Austin, Texas

TITUS, ALAN W.
First National City Bank of New York,
New York City

TUCKER, W. ROY, JR.*
Rowles, Winston & Co.,
Houston, Texas

TYSON, EARL A.
Eddleman, Pollok & Fosdick, Inc.,
Houston, Texas

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United California Bank,
Los Angeles, Calif.

UTLEY, PAUL W.
Goodbody & Co.,
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VAN INGEN, JR., BERNARD, JR.
B. J. Van Ingen & Co., Inc.,
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VINYARD, EUGENE D.
Eppler, Guerin & Turner, Inc.,
Dallas, Texas

VOEKEL, KENNEY R., JR.
Underwood, Neuhaus & Co.,
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VOSTAL, JOSEPH
Kidder, Peabody & Co.,
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WAGGENER, NELSON*
Walker, Austin & Waggener,
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Morgan Guaranty Trust Company,
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A. G. Edwards & Sons,
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Wisener, Mackellar and Company,
Toronto, Canada

WHITE, CHARLES B.
Charles B. White and Company,
Houston, Texas

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Arnold J. Kocurek, *Rauscher, Pierce & Co.*, San Antonio; Gilbert Hattier, Jr., *Hattier & Sanford*, New Orleans; John X. Kennedy, *White, Weld & Co.*, Chicago; M. B. Pratt, *Estabrook & Co.*, Boston



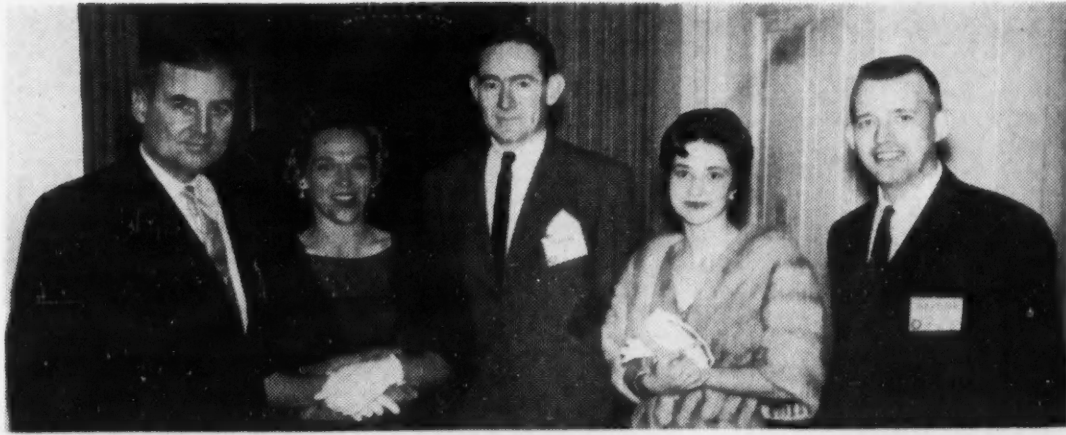
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